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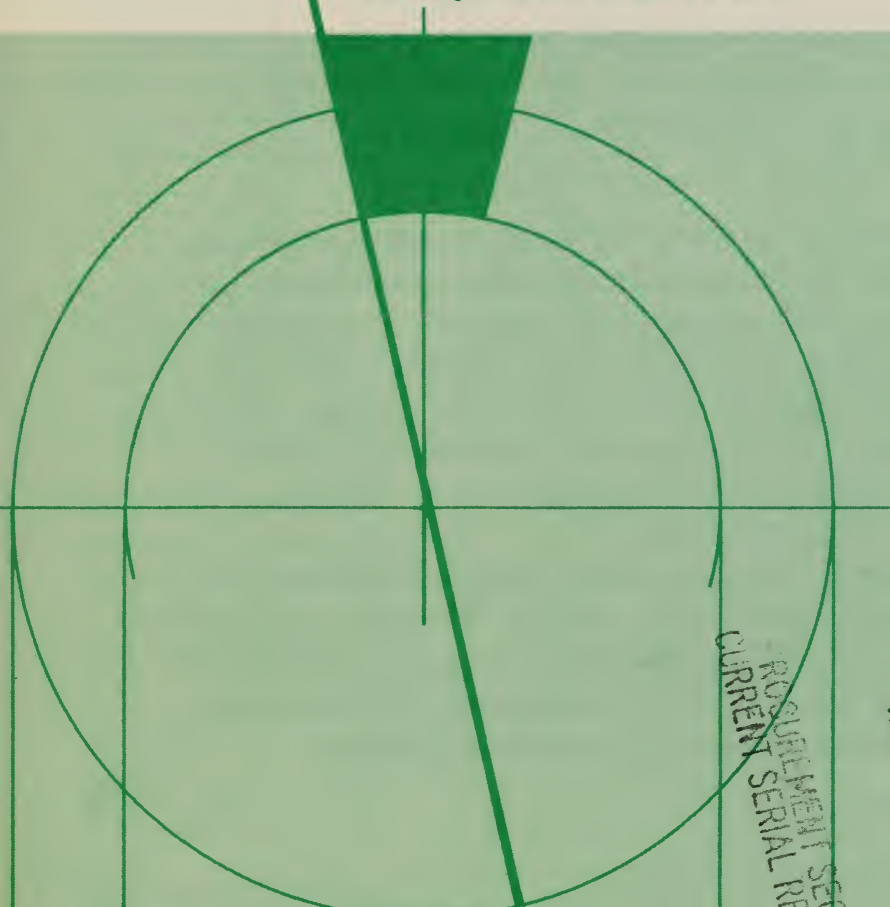
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SHOULD COOPERATIVES TIGHTEN MEMBERSHIP REQUIREMENTS?

by Irwin W. Rust



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U. S. DEPARTMENT OF AGRICULTURE
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Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives, and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

Foreword

The 1965 series of member relations conferences, sponsored jointly by Farmer Cooperative Service and the American Institute of Cooperation, had as its theme "Improving Member and Community Support for Cooperatives."

This is the first of a series of four circulars based largely on information developed in speeches and during discussions at the conferences. The circulars are intended to stimulate thinking rather than to provide specific solutions to problems.

The following cooperative leaders expressed many of the ideas presented here.

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SHOULD COOPERATIVES TIGHTEN MEMBERSHIP REQUIREMENTS?

by Irwin W. Rust

Membership Relations Branch

Management Services Division

Every cooperative—marketing, supply, or service—has as its basic objective improving the economic well-being of its members. To be successful, each cooperative needs to appraise its operations frequently; to be constantly alert to ways of strengthening its organization to better serve patron-members.

But providing better service to patron-members will not of itself guarantee success today. The cooperative is a business operating in a business-oriented world. The successful cooperative makes it possible for those firms or individuals with which it does business to benefit, monetarily or otherwise, from the relationship.

For example, the produce buyer for a large-scale food chain needs the assurance of a continuing flow of produce graded, sized, packed, and shipped to specification. He may have hundreds of store managers looking to him for a regular supply of salable merchandise. He must seek suppliers who can meet the demands of *his* patrons. The marketing cooperative unable to meet these needs because of sporadic member patronage may find it difficult to serve either its customers or its members effectively.

Similarly, a purchasing cooperative can help its suppliers operate more efficiently by buying within a pattern which helps the supplier even out his production schedule, make deliveries at the most economical time or in the most economical manner, or even perhaps guarantee volume required to make it safe for him to add or alter production and distribution patterns and methods.

A few cooperatives providing both production and marketing services have faced up to the problems and opportunities inherent in binding agreements between cooperatives and patrons.

Notable examples include swine and poultry production and marketing associations. Some fruit marketing cooperatives require members to produce up to certain grade requirements as a condition of continuing membership.

What of cooperatives in general?

Many cooperative leaders believe that the time has come to take a careful look at membership requirements. Is the old concept of open membership suited to today's operations or is the day long gone when "anyone who drives across the scale is a member"?

Others, while agreeing that membership requirements should be tightened, are concerned that this might be accomplished only by sacrificing some of the democratic principles on which cooperatives were founded.

This publication brings you a sampling of thoughts on the subject.

What Kinds of Membership Policies Do Cooperatives Have?



Strictly speaking, open membership means that a cooperative draws no occupational, class, or nationality lines in accepting or enlisting members. Nor does it have any restrictions based on color, creed, sex, or religious or political beliefs.

Thus a completely open membership policy would mean that any farmer or consumer, or even a competitor, could join the cooperative. In many cooperatives, any producer can become a member by purchasing or arranging to purchase one share of common stock, frequently for \$1.

A restrictive or selective policy sets up basic criteria or requirements which members must meet. These may relate to financial investment, volume and quality requirements, signing marketing contracts, or geographical location.

Adopting a restrictive or selective membership policy does not necessarily mean that a cooperative has abandoned basic principles of cooperation, a land bank official declares. In his opinion, this can be a method of firming up requirements to provide more economic stability for the cooperative and to encourage more member interest.

Type of Cooperative Affects Policy

The type of business a cooperative operates has a definite bearing on its membership policies and requirements.

Cooperatives that provide supplies or services normally have open membership. They are interested in sales to members and nonmembers alike. Patrons usually benefit from any increased volume.

Cooperatives that process are likely to have a selective or restrictive membership policy. They are seeking dependable volume and high quality products.

In the early days, bargaining cooperatives often worked diligently to increase their membership on the assumption that the more members, the louder the voice in the marketplace. Today, they too are emphasizing quality and are inclined to think in terms of placing restrictions on membership, often through use of marketing contracts.

As a result of the special needs of different types of cooperatives, therefore, membership policies can range from one of open arms to one highly selective in terms of such factors as quality, variety, and volume.

Effects of Changing Times

As one cooperative manager of more than 30 years' service observes, "Needs change and changes are needed with the passing of time in all successful businesses."

The trouble with the membership requirements in many cooperatives is that they have not moved with the times.

When cooperatives were getting their start in the United States, most of them opened their membership to all "farmers." More than 50 percent of the population was classified as "rural."

Today, about 7 percent of our population produces food and fiber for all the Nation. Farm population has declined more than 25 percent in the last 10 years. Statisticians tell us that, while U.S. population will be 245 million by 1980, even fewer farmers will be needed to provide food and fiber.

Because of this trend to urbanization, cooperatives today can easily find themselves with more ex-farmers than farmers on their membership rolls. What should be done about this?

Two large regionals that recently merged discovered in the process that they had many non-farmers listed as members. Some of their locals were not even attempting to invite all these people to membership meetings. There was no provision in the bylaws under which stock held by retired farmers could be called.

As cooperatives have grown larger and their operations more complex, other questions on membership have arisen. What about “some-time” patrons—should they have the same rights as full-time patrons? Would member control based on use of the cooperative, with or without stock membership, be effective?

And finally, provisions of the Internal Revenue Act of 1962 have added urgency to some of these considerations. Cooperatives need to know not only who is and who is not a member but, in many cases, when he became or ceased to be a member.

Thus changing times, changing population, and changing operations all point up the need to review membership requirements.

Who Is Responsible for Action?



The board of directors generally is responsible for seeing that membership requirements are met.

When you consider that, in a large cooperative, payment of the membership fee may give a producer immediate access to \$25 million worth of facilities, the magnitude of this responsibility is obvious.

At least one cooperative director believes his counterparts may be showing reluctance to accept their responsibility. He says bluntly, “It seems to me that, in general, cooperative management and boards have too long hesitated to make and enforce membership requirements that reflect changes needed for economic survival.

“If a board member is convinced that certain action should be taken, I don’t think he should spend too much time worrying whether the decision will be popular or, if such action is taken, whether he will be elected again.”

Of course, directors are bound by the bylaws of the cooperative. If these bylaws do not give enough elbow room to tighten membership requirements or do not provide machinery for enforcement, it may be necessary to consider bylaw revision or amendment.

A cooperative specialist cautions, however, that changing membership requirements should not be undertaken lightly.

Such action, he says, inevitably raises both legal and ethical problems.

It can also raise serious public and membership relations problems.

How Might Requirements Be Tightened?



There is almost general agreement among cooperative leaders that strengthening membership requirements—particularly in marketing and processing associations—would strengthen the associations themselves.

The question is—how can this be done?

Basically, there are two possibilities. Tighten requirements for becoming a member or tighten requirements for remaining a member.

Whichever method is chosen, any action taken must be in accordance with the bylaws of the cooperative, as we pointed out in the preceding section.

For Joining

Many cooperatives who ask potential members to complete detailed application blanks consider this an effective method of screening applicants.

In one association that requires applicants to complete a detailed questionnaire, a special committee then determines if applicants meet production and other specified standards.

A processing and marketing cooperative that says it is “rather choosy” in accepting new members asks applicants to submit detailed information as to personal attributes, location and condition of acreage, agricultural practices, production records, and finances. Applicants must meet established criteria.

One cooperative leader disagrees with some cooperative people who fear that setting up such strict membership requirements might have an adverse affect on total membership. He draws a parallel with universities that follow a highly selective policy of admission. “In many cases this has paid off handsomely,” he says. “There is a certain amount of truth in the idea that you

can attract many people by saying you will accept only a few.”

This hearty agreement comes from a cooperative manager. “It seems to me that the firmer the membership requirements, the more successful the organization becomes, the more businesslike its directors and management are, and the more interested and loyal the membership remains.”

Importance of Cash Investment

Many cooperative leaders believe membership requirements should be tightened by placing increased emphasis on a new member's financial obligation to the cooperative.

Capital is as essential as members if a cooperative is to operate successfully, one declares. And no one disagrees. Members' equity in their cooperatives increased from 1.6 percent of all agricultural assets in 1950 to 2.3 percent in 1964.

Requirements of purchase of a \$100 share of common stock and cash investment in proportion to expected use of services, as well as a formal application for membership, subject to approval by the board of directors, have not discouraged potential members of his cooperative, a general manager reports.

In the past 7 years, members of that cooperative have made new cash investments of more than \$760,000 in amounts ranging from a few hundred dollars to \$40,000. The association now has a waiting list of four applications which would be accompanied by cash investments of more than \$65,000.

“You can believe members who have met these requirements know they belong to the cooperative,” the manager says. “They are intensely interested in who sits on the board of directors and their interest in operating reports, services, and financial statements is almost clinical.”

The manager of a cooperative in which capital stock investment is approximately \$1,700 a member plus \$6,800 each in equity certificates agrees that financial participation gives members a feeling of ownership and responsibility.

In his opinion, “If certain cash investment is required before coming into a cooperative, membership means more. Members then think of the association as ‘my’ or ‘our’ cooperative—not just another place to buy supplies or sell products.”

In fact, even the staunchest defenders of open membership consider member investment essential.

“Economic needs continue to be the most important factor in the success of any cooperative and one of the most important aspects of financial policy is that of member investment,” he says.

Contracts

Marketing and processing cooperatives often require applicants to sign contracts to deliver all or specified quantities of their products to the cooperative.

A leader in a cooperative that has used such contracts for 45 years declares, "Their importance cannot be overemphasized."

Another cooperative leader, convinced of the value of marketing agreements, brings up the possibility of cooperatives going a step farther and asking members to post bond against violating marketing contracts.

He says, "I know of cases where a group of farmers bond themselves to perform in accordance with a private contract. Would the same farmers bond themselves to deliver their crop to their cooperative?"

An interesting thought, at least!

Opinions as to the desirability of using contracts as requirements for membership are not unanimous, however.

We cite the experience of a cooperative that had a long and stringent contract. Although the contract was discussed in detail with each prospective member before he joined the association, some failed to live up to their agreement.

The board of directors decided to take action. They brought suit against one member and the case came to trial. The cooperative lost. The member convinced the court that he didn't own the produce involved.

After this experience, the cooperative concluded its contracts were unenforceable and that, even if they could be enforced, the cooperative would lose more from unfavorable publicity than it would gain by forcing the member to comply.

The contracts were discontinued. In discussing this, the manager says, "I think that anything we do to firm up membership requirements must take into consideration the democratic fundamentals of cooperative philosophy. . . . I do not believe we can invoke contracts which set up dictatorial-type policies."

On the other hand, a proponent of the use of contracts tells of a marketing association that requires members to send all their produce through the cooperative and has very strict financing requirements. This association has a waiting list for applicants, does almost 100 percent of the business available in its area, and counts on a turnout of 70 to 80 percent at its regular meetings.

Obviously, the use of contracts has not been a handicap to this cooperative.

For Retaining Membership

It is a rare cooperative that does not have some problem members whom it could well do without.

Probably first among these are the members who desert the cooperative when they can get a slightly better price deal somewhere else but rush back to the shelter of the cooperative umbrella when conditions are reversed.

At least one cooperative has found a way to cope with this "in and out" type of member. Its bylaws provide that a grower who leaves the association (except for certain specified reasons) loses his share of any unrevolved funds.

Other problem members include:

- Those who fail to provide a constant and dependable volume of business or products of acceptable quality.
- Those who fail to accept their fair share of financial responsibility.
- Those who have left the farm and now have little real interest in the cooperative but have not given up their memberships.

Tightening requirements for retaining membership undoubtedly would remove some of these people from the cooperative's rolls. How can this be done?

Purging the Rolls

When we talk of tightening requirements for remaining a member, the first question that arises is—"Who is going to do the job?" Who is going to say to a member, "You no longer qualify. You're out."

Hired management could not take such action.

How about the board of directors? In cooperatives, here is where the ultimate responsibility lies. But, as one cooperative student says realistically, "It is difficult for a board member, in effect, to tell some of the people who elected him that they are not qualified for membership."

Then how about the members themselves enforcing requirements for membership?

That isn't easy either. The director of an association whose bylaws provide for expulsion by the membership or the board reminds us, "... there is a practical side to this. Ours is a small valley and most of us are neighbors."

Possible Solutions

There are, however, some ways of tightening requirements for retaining membership that are not so likely to cause hurt feelings and resultant bad membership and public relations.

Requiring members to sign marketing contracts on an annual basis gives a cooperative a chance to weed out nonproducers or noncompliers. An official in an association which follows this procedure and also has strict criteria which prospective members must meet has this to say:

"A cooperative's purpose is not to provide a haven of last resort for producers who cannot be expected to be with us in the

years to come because of their inability to compete. Our purpose, if we are to continue to render service, is to serve those who will continue in the business and not allow ourselves to be dragged down along with those who will disappear.”

A merger or consolidation gives the associations involved an opportunity to realign their membership. As part of the reorganization, new membership requirements can be set up and all old members asked to reapply. Some, of course, will not be able to qualify. Others simply will not complete the new application.

Through Membership Relations Programs

Cooperative leaders have emphasized again and again that any plan devised to tighten membership requirements must be accompanied by a strong membership relations program. Such a program both encourages interest in the cooperative and points up the responsibilities of membership.

The manager of a cooperative that was established almost half a century ago reminds us that the parents and grandparents of some of today's members were the ones who felt the need for cooperative action and struggled to get the organization under way. Now, two or three generations later, young members tend to take their membership in the cooperative for granted. They have less background on which to build a feeling of loyalty and responsibility to the cooperative.

This same manager believes many agricultural schools and colleges are not taking a sufficiently positive approach in teaching about the place of cooperatives in the agricultural economy.

A strong membership relations program is needed to cope with these problems, he thinks.

A special short course for new or prospective members on membership requirements and responsibilities is suggested by one cooperative leader. This would be similar to the training courses for directors which many cooperatives find so effective.

Another suggestion is to have the membership relations committee discuss membership requirements carefully with each applicant before he joins the cooperative. Financial responsibility of members could be explained at this time. In a cooperative with selective membership, the criteria used could be discussed in detail.

Bulletins, house organs, general meetings, and other membership relations activities are necessary to keep members aware of what is going on in the cooperative. “The more intensely aware individuals are of their membership, the stronger the organization will be,” a general manager declares. “The selection of competent directors and management, and the degree of financial support is in almost direct proportion to this awareness.”

But regardless of the ability with which it is planned and the skill with which it is administered, no member relations program can take the place of a firm and definitely stated membership policy under which a member consciously and willingly assumes his business and financial obligations to the cooperative.

Other Publications Available

Assuring Democratic Election of Cooperative Directors. Educational Circular 21. Irwin W. Rust.

Creating Training Programs for Cooperative Directors. Educational Circular 22. Irwin W. Rust.

Using Cooperative Directors To Strengthen Member Relations. Educational Circular 23. Irwin W. Rust.

What Cooperative Members Should Know. Educational Circular 24. Irwin W. Rust.

Directors of Cooperatives and Their Wives—A Good Member Relations Team. Educational Circular 25. Irwin W. Rust.

Recognizing the Ideal Co-op Director. Educational Circular 26. Irwin W. Rust.

Managing Farmer Cooperatives. Educational Circular 17. Kelsey B. Gardner.

Improving Management of Farmer Cooperatives. General Report 120. Milton L. Manuel.

Directors of Regional Farmer Cooperatives—Selection, Duties, Qualifications, Performance. General Report 83. David Volkin, Nelda Griffin, and Helim H. Hulbert.

Bylaw Provisions for Selecting Directors of Major Regional Farmer Cooperatives. General Report 78. Helim H. Hulbert, David Volkin, and Nelda Griffin.

“Mr. Chairman—” Information 6.

Membership Practices of Local Cooperatives. General Report 81. Oscar R. LeBeau.

Making Member Relations Succeed. Information 32. Irwin W. Rust.

A copy of each of these publications may be obtained upon request while a supply is available from—

Farmer Cooperative Service
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Washington, D. C. 20250